

CHAPTER 4:

AUDITOR GENERAL'S PERFORMANCE SUPPORT REPORT AND FINANCIAL STATEMENTS

Kou-Kamma Municipality has prepared financial statements in line with section 122 of the Municipal Finance Management Act (Act No.56.2003). According to the MFMA the financial statements should:

Fairly represent the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Disclose the information required in terms of sections 123, 124 and 25.

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GENERAL INFORMATION

2

MEMBERS OF THE COUNCIL

O'Connell N J
Yake F J
Jacobs D M
Kettledas J
Strydom F
Reeders C
Jacobs S
Mntambo N E
Ncethezo S D
Wogane M W

MAYOR:

O'Connell N J

GRADING OF LOCAL AUTHORITY

Grade (No grading system)

AUDITORS

Auditor General

BANKERS

ABSA

REGISTERED OFFICE

P O Box 11
Kareedouw

PHYSICAL ADDRESS

Keet Street 5
Kareedouw
Tel no: 042-2880303
Fax no: 042-2880797

MUNICIPAL MANAGER

Ndokweni M (B Juris)

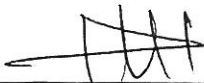
ACTING CHIEF FINANCIAL OFFICER

C Oudshoorn

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements as set out were approved by the Municipal

Manager on 31-08-2007 and presented to and approved by Council on _____.



MUNICIPAL MANAGER

B Juris



ACTING CHIEF FINANCIAL OFFICER

FOREWORD –FINANCIAL STATEMENTS : 2006/2007 OF KOU-KAMMA MUNICIPALITY



COUNCILLOR NOEL J. O' CONNEL: THE MAYOR

KOU-KAMMA THE BEHOLDER OF OUR PRIDE, OUR AMBITION AND OUR DESTINY TO OUR BETTER LII

My statement to these Financial Statements is accompanied by a sentiment of despair and hope. Hope that we will manage to overcome all our difficulties, barriers and challenges. We also proud ourselves to report that this is the first time in this history of Kou-Kamma, that we will be punctual in the submission of our Financial Statements. In itself we are making a Statement to declare our commitment to turn back the tide. This achievement happened at the background of:

- Capacity and institutional challenges
- Very weak Finance Department and Capacity problems
- Low financial viability of the Municipality
- Infrastructure and Technical backlogs


We also pledge to continuously strive towards advancing good co-operate governance, sound financial discipline and efficient administration. We also need to explore and promote the realization of the co-operative governance engagement with our Provincial, National and District counterparts. Another area to explore is the establishment of Strategic Municipal Partnerships. especially in the area of Local Economic

We have a long and steep stride to go, but we are happy because we are going to make it this time.

“OUR TOMORROW LOOKS BRIGHT; OUR FUTURE IS FULL OF GOOD PROSPECTS”

“LIFE WILL COME BACK TO THE PEOPLE OF KOU-KAMMA AND WE WANT IT NOW”

Sincere greetings


Noel O' Connel
Kou-Kamma Municipality
THE MAYOR
Annual Report 2006/2007



CHIEF FINANCE OFFICER'S REPORT FOR THE YEAR ENDED 30 JUNE 2007

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The financial statements for the financial year was completed within the timeframes stipulated by legislation and can therefore be of assistance to Council. The implementation of the new financial system made it possible that the statements were prepared in time. The assistance of a service provider for the compilation of the statements was necessary due to the fact that statements for the financial years 2002/03, 2003/04, 2004/05 and 2005/06 were audited by the Auditor-General late in the 2006/07 financial year. This and the fact that the Chief Financial Officer and a senior staff member of finance terminated their services placed a massive workload on the staff members of the department.

The following comments on the financial matters of the Municipality are necessary:

1 Operating Results

Details of the operating results are included in appendices A to E. The overall operating results for the year ended 30 June 2007 are as follows:

Service	Income 2006	Expenditure 2006	Surplus (Deficit)	Income 2007	Expenditure 2007	Surplus/ (Deficit)
Community Services	13,597,588	16,350,484	(2 752 896)	19,346,355	24,579,378	(5 233 023)
Subsidised Services	90,229	288,472	(198 242)	184,944	465,989	(281 045)
Economic Services	6,025,418	4,474,396	1,551,022	7,363,125	6,833,624	529,501
Housing Services	0	233,309	(233 309)	0	424,785	(424 785)
Trading Services	5,957,662	4,156,115	1,801,547	7,016,816	6,061,225	955,591
TOTAL	25,670,897	25,502,775	168,122	33,911,240	38,365,001	(4 453 761)

1.1 Rates and General Services

The rates and general account shows a deficit of R4 984 567 for this year whilst it showed a deficit of R1 400 116 in 2005/2006. This is mainly due to the fact that the equitable share was allocated to various services.

1.2 Housing

The housing activities resulted in a deficit of R424 785 due to the administration of the housing development.

1.3 Trading Services

The electricity account shows a deficit of R34 636 against a deficit of R241 129 the previous year. The water account shows a surplus of R990 227. Attention should be given to the electricity account.

1.4 Accruals for Services

Although accruals for all services have been done, more attention will be given to the monthly accruals and the reconciliation thereof. Water and electricity meters have been read and accounts have been prepared. Accounts have been delivered monthly to the consumers during the year.



2 Capital Expenditure and Funding

4.1

The expenditure on fixed assets incurred during the year amounted to R1 534 858. The expenditure capitalised during this period consists of the following:

COMMUNITY and SUBSIDISED SERVICES

Properties and sundries	R20 000
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SUBSIDISED SERVICES

Library Equipment	R33 980
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TRADING SERVICES

Electricity	R1 430 614
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Water	R50 264
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The expenditure was funded mainly from Grants and Subsidies.

3 Cash and Investments

The municipality had a net overdraft balance of R102 440 compared to the favourable balance of R118 236 the previous year. Investments amounting to R157 032 was recorded this financial year compared to R149 472 of the previous year. The net cash value reduced by R220 676.

This is mainly due to the increase in debtors. Although cash and investments have been separated, these accounts are treated the same because direct payments are also made from the investment accounts.

4 Debtors

The debtors register reflects the accounts per consumer and was accepted as correct. No additional contribution was made to the bad debts reserve account. The net total debtors amounts to R24 040 662 which is an increase of R5 130 267.

5 Funds and Reserves

Most of the funds were not supported by cash. Refer to appendix A for details.

A contribution was made to the Revolving Fund of 7.5% of rates income.

The Dog Tax Ordinance 19 of 1978 requires council to maintain a special account to the control of dogs. This fund is not active and consideration should be given to write the fund off.

Details of the trust funds are reflected in the financial statements.

6 External Loans

Council had no external loans.

7 Expression of Appreciation

We are grateful to the Mayor, Councillors and staff for the support they have given through the year.

8 Post balance sheet events

Refer to note 19 with regard to the contingent liabilities

9 Grant and subsidies

Council received grants to the value of R12 928 277 to subsidise certain operating costs


CHIEF FINANCIAL OFFICER

31 August 2007

ACCOUNTING POLICIES

1 BASIS OF PRESENTATION

- 1.1 These financial statements conform to the standards laid down by the Institute of Municipal Financial Officers in its Report on the Standardisation of Financial Statements of Local Authorities (2nd Edition – September 1996).

The financial statements have been prepared in the new format as set out by the above Institute.

- 1.2 The financial statements are prepared on the historic cost basis. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis:

Income is accrued when collectable and measurable. Certain income is accrued when received such as traffic fines and licenses.

Expenditure is accrued in the year it is incurred.

2 CONSOLIDATION

The balance sheet includes the Rates and General Services, Housing Service, Trading Services and the different funds, reserves and provisions. All the inter-departmental charges are set-off against each other with the exception of assessment rates, refuse removal, sewerage, electricity and water, which are treated as income and expenditure in the respective departments.

3 FIXED ASSETS

- 3.1 Fixed assets are stated at historical cost while they are in existence and fit for use. Certain replaceable assets such as furniture and equipment, water reticulation, sewer reticulation, roads and drainage, vehicles and plant are stated at depreciated value and are written off at the end of the loan repayment period. No revaluation of assets were made during this financial year.
- 3.2 The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation. By way of this "provision" assets are written down over the loan repayment period.

Apart from advances from the various funds, Assets may also be acquired through:

Appropriation from Income. The full cost of the asset forms an immediate and direct charge against the operating account.

Grants and Subsidies. The amount representing the value of the Grants and Subsidies is credited to the "Loans Redeemed and Other Capital Receipts" account.

- 3.3 All net proceeds from sale of fixed immovable property are credited to the Revolving Fund. Net proceeds from the sale of movable assets are credited to the Operating Account.

3.4 Financing

Capital Assets are financed from different sources including external loans, provision and reserves, operating income, grants, subsidies and internal advances. Advances are repaid over the estimated lives of the assets in accordance with the guidelines issued by Province. Advances from the Revolving Fund are repaid on any annuity basis.

- 3.5 **Interest Rates: Advances from Revolving Fund**
Advances made are required at market related interest rates.

4 **INVESTMENTS**

Investments are reflected as cost and comprise securities and prescribed in terms of the Local Government Transition Act, Second Amendment Act 97 of 1996. On certain investments

5 **REVOLVING FUND**

expenditure are pooled in this fund so as to facilitate the control and management thereof. The moneys in the fund may be utilised to repay loans, financial capital expenditure and defray expenses incurred with the raising of loans.

6 **STOCK**

Stock is reflected at cost.

7 **RETIREMENT BENEFITS**

Council operates 2 retirement schemes to which contributions are charged against operating income at the following rates:

SALARY	% OF BASIC
Cape Joint	18%
SALA	18.07%

Full actuarial valuation for the above mentioned funds are performed every 3 years

TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

8

The cost of internal support services are transferred to the different services in accordance with the Institute of Municipal Finance Officers report on Accounting in Support Services. Council has approved a charge out based on percentage of actual cost.

9

TREATMENT OF SURPLUSES AND DEFICITS

Any surpluses of deficits arising from the electricity and water services are transferred to the Rate and General Service.

10

INCOME RECOGNITION

10.1 **Electricity and Water Billings**

Electricity and Water meters in all business and residential areas are read and billed monthly. Due dates for payments are approximately six weeks after meter readings.

10.2 **Assessment Rates**

Council applies a flat rating system. The same rate factor is applied to land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned.

KOUKAMMA MUNICIPALITY

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BALANCE SHEET AT 30 JUNE 2007

	Note	2007 R	2006 R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		2 310 947	2 107 293
Accumulated funds	1	2 228 845	2 025 191
Reserves	3	82 102	82 102
ACCUMULATED SURPLUS / (DEFICIT)		10 605 991	14 749 732
		12 916 938	16 857 025
TRUST FUNDS	2	5 792 374	(261 067)
CONSUMER DEPOSITS	12	104 700	104 700
		18 814 013	16 700 658
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	4	3 693 717	3 693 717
LONG-TERM DEBTORS	6	10 697	29 291
		3 704 414	3 723 008
NET CURRENT ASSETS/(LIABILITIES)		15 109 599	12 977 650
CURRENT ASSETS		24 890 090	19 398 130
Debtors	8	24 040 662	18 910 395
Short term portion of long term debtors	6	31 309	46 664
Short term investments	5	157 032	149 472
Cash & Bank		661 087	291 599
CURRENT LIABILITIES		9 780 490	6 420 480
Provisions	10	1 259 628	1 217 278
Creditors	11	7 757 335	5 029 839
Bank overdraft		763 527	173 363
		18 814 013	16 700 658


MUNICIPAL MANAGER
 B Juris


ACTING CHIEF FINANCIAL OFFICER



Kou-Kamanga Municipality
Annual Report 2006/2007

2006/2007	2005/2006	2004/2003	2003/2002	2002/2001	2001/2000	2000/1999	1999/1998	1998/1997	1997/1996	1996/1995	1995/1994	1994/1993	1993/1992	1992/1991	1991/1990	1990/1989	1989/1988	1988/1987	1987/1986	1986/1985	1985/1984	1984/1983	1983/1982	1982/1981	1981/1980	1980/1979	1979/1978	1978/1977	1977/1976	1976/1975	1975/1974	1974/1973	1973/1972	1972/1971	1971/1970	1970/1969	1969/1968	1968/1967	1967/1966	1966/1965	1965/1964	1964/1963	1963/1962	1962/1961	1961/1960	1960/1959	1959/1958	1958/1957	1957/1956	1956/1955	1955/1954	1954/1953	1953/1952	1952/1951	1951/1950	1950/1949	1949/1948	1948/1947	1947/1946	1946/1945	1945/1944	1944/1943	1943/1942	1942/1941	1941/1940	1940/1939	1939/1938	1938/1937	1937/1936	1936/1935	1935/1934	1934/1933	1933/1932	1932/1931	1931/1930	1930/1929	1929/1928	1928/1927	1927/1926	1926/1925	1925/1924	1924/1923	1923/1922	1922/1921	1921/1920	1920/1919	1919/1918	1918/1917	1917/1916	1916/1915	1915/1914	1914/1913	1913/1912	1912/1911	1911/1910	1910/1909	1909/1908	1908/1907	1907/1906	1906/1905	1905/1904	1904/1903	1903/1902	1902/1901	1901/1900	1900/1899	1899/1898	1898/1897	1897/1896	1896/1895	1895/1894	1894/1893	1893/1892	1892/1891	1891/1890	1890/1889	1889/1888	1888/1887	1887/1886	1886/1885	1885/1884	1884/1883	1883/1882	1882/1881	1881/1880	1880/1879	1879/1878	1878/1877	1877/1876	1876/1875	1875/1874	1874/1873	1873/1872	1872/1871	1871/1870	1870/1869	1869/1868	1868/1867	1867/1866	1866/1865	1865/1864	1864/1863	1863/1862	1862/1861	1861/1860	1860/1859	1859/1858	1858/1857	1857/1856	1856/1855	1855/1854	1854/1853	1853/1852	1852/1851	1851/1850	1850/1849	1849/1848	1848/1847	1847/1846	1846/1845	1845/1844	1844/1843	1843/1842	1842/1841	1841/1840	1840/1839	1839/1838	1838/1837	1837/1836	1836/1835	1835/1834	1834/1833	1833/1832	1832/1831	1831/1830	1830/1829	1829/1828	1828/1827	1827/1826	1826/1825	1825/1824	1824/1823	1823/1822	1822/1821	1821/1820	1820/1819	1819/1818	1818/1817	1817/1816	1816/1815	1815/1814	1814/1813	1813/1812	1812/1811	1811/1810	1810/1809	1809/1808	1808/1807	1807/1806	1806/1805	1805/1804	1804/1803	1803/1802	1802/1801	1801/1800	1800/1799	1799/1798	1798/1797	1797/1796	1796/1795	1795/1794	1794/1793	1793/1792	1792/1791	1791/1790	1790/1789	1789/1788	1788/1787	1787/1786	1786/1785	1785/1784	1784/1783	1783/1782	1782/1781	1781/1780	1780/1779	1779/1778	1778/1777	1777/1776	1776/1775	1775/1774	1774/1773	1773/1772	1772/1771	1771/1770	1770/1769	1769/1768	1768/1767	1767/1766	1766/1765	1765/1764	1764/1763	1763/1762	1762/1761	1761/1760	1760/1759	1759/1758	1758/1757	1757/1756	1756/1755	1755/1754	1754/1753	1753/1752	1752/1751	1751/1750	1750/1749	1749/1748	1748/1747	1747/1746	1746/1745	1745/1744	1744/1743	1743/1742	1742/1741	1741/1740	1740/1739	1739/1738	1738/1737	1737/1736	1736/1735	1735/1734	1734/1733	1733/1732	1732/1731	1731/1730	1730/1729	1729/1728	1728/1727	1727/1726	1726/1725	1725/1724	1724/1723	1723/1722	1722/1721	1721/1720	1720/1719	1719/1718	1718/1717	1717/1716	1716/1715	1715/171
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AUDITED

KOUKAMMA MUNICIPALITY

CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2007

	2007 R	2006 R
CASH RETAINED FROM OPERATING ACTIVITIES:		
Cash generated by operations	2,263,649	-499,520
Investment income external	-73,994	-139,271
(Increase)/decrease in working capital	-2,402,771	-346,962
External interest paid		
Grants and Subsidies	1,534,858	1,925,003
Net Proceeds on disposal of fixed assets		-75,930
CASH UTILISED IN INVESTING ACTIVITIES		
Investment in Fixed Assets	-1,534,858	-2,032,455
NET CASH IN / (OUT) FLOW	<u>-213,117</u>	<u>-1,169,135</u>
CASH EFFECTS OF FINANCING ACTIVITIES:		
(Increase)/decrease in cash investments	-7,559	168,465
(Increase)/decrease in cash	220,677	1,000,670
Net cash (generated)/utilised	<u>213,117</u>	<u>1,169,135</u>

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

	2007 R	2006 R
1. ACCUMULATED FUNDS		
Revolving Fund	2,173,642	1,969,988
Dog Tax	55,203	55,203
	<u>2,228,845</u>	<u>2,025,191</u>

(Refer to appendix A for more detail)

The purpose of the fund is to provide internal finance for projects and/or purchase of equipment.

2. TRUST FUNDS

Training	1,815	1,815
Housing	-1,740,270	-645,191
Library	76,549	24,310
IDP	150,000	0
MSP	125,737	358,000
MIG	7,178,544	0
	<u>5,792,374</u>	<u>-261,066</u>

Refer to appendix A for more detail

These funds have all specific purposes as indicated by the name of the fund. Training fund is for training, Housing fund for the building of houses, Library fund for library equipment, MIG for infrastructure development, IDP for the preparation for a development plan and MSP for professional services to assist the municipality.

3 RESERVES

Renewals fund	82102	82102
	<u>82,102</u>	<u>82,102</u>

Refer to appendix A for more detail

The purpose of this fund is to replace equipment.

4 FIXED ASSETS

Fixed assets at the beginning of the year	43,616,874	41,680,342
Capital expenditure during the year	1,534,858	2,032,455
Less: Assets written off, transferred or disposed of during the year	0	95,923
TOTAL FIXED ASSETS	<u>45,151,732</u>	<u>43,616,874</u>
Less: Loans redeemed and other capital receipts	41,458,015	39,923,157
NET FIXED ASSETS	<u>3,693,717</u>	<u>3,693,717</u>

(Refer to appendix C and section 2 of the Treasurer's Report for more details on Fixed Assets)

All the assets of council are shown at cost and no depreciation is calculated.
The council did not engaged into any gaurantees whereby the assets of council serve as collateral.
Council has a vehicle lease agreement for a period of 5 years.

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

	2007 R	2006 R
5 INVESTMENTS		
Short term deposits	157,032	149,472
Management valuation of unlisted investments	157,032	149,472
Average return on investments	6.00%	5.50%
The Local Authorities Ordinance No 23 of 1935 requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a plenary rate to meet commitments. No investments were written off during the year. Investments are valued at cost.		
6 LONG TERM DEBTORS		
Loans	42,006	75,955
Less Short term portion	31,309	46,664
	10,697	29,291
7 STOCK		
The council does not hold any stock items	0	0
8 DEBTORS		
Current debtors (consumer and other)	33,223,929	28,105,226
Debtors and other advance	121,133	109,570
	33,345,062	28,214,796
Less: Provision for Bad Debts	9,304,400	9,304,401
	24,040,662	18,910,395
The council did not write off any debtors during the year. No additional provision has been made due to the fact that the provision is 28% of the total outstanding debtors.		
9 LONG TERM LIABILITIES		
Council has no long term loans		
10 PROVISIONS		
Audit fees	300,000	150,000
Leave reserve	959,628	1,067,278
	1,259,628	1,217,278

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

	2007 R	2006 R
11 CREDITORS		
Trade creditors	3 575 706	905 283
Insurance claims control	0	163 189
Other creditors	1 630 550	1 982 694
VAT	2 551 079	1 978 673
	<u>7 757 335</u>	<u>5 029 839</u>

Note: VAT due to the Receiver of Revenue based on accruals to be paid when received is included in vat creditors

12 Deposits		
Trading deposits	104,700	104,700
	<u>104,700</u>	<u>104,700</u>

13 ASSESSMENT RATES

	Valuations as at 30-Jun R	Actual income 2006/2007 R	Actual income 2005/2006 R
All Properties	108 515 747	4,374,603	3,504,905

Valuations on land and buildings should be performed every 5 years.

Due to the amalgamation of the various local authorities, different rates are still applicable for the areas under the jurisdiction of council.

The basic rate for Kareedouw was 8.14c per rand for land and 1.31c per rand for buildings, and for Joubertina 17.29c per rand for land and 3.67c per rand for buildings. The other areas varous from 0.001c per rand to 0.0148c per rand.

No rebates are granted.

14 COUNCILLORS' ALLOWANCES

Mayor	366 296	247 231
Councillors	1,304,107	1,220,184
	<u>1,670,403</u>	<u>1 467 415</u>

15 AUDITORS' REMUNERATION

Audit fees (Provision for fees)	<u>300 000</u>	<u>150 000</u>
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16 APPROPRIATIONS

Accumulated surplus (deficit) at the beginning of the year	14 749 732	14 722 611
Operating (deficit)/surplus for the year	(4 453 761)	168 122
Appropriations for the year:		
Prior year adjustments	310 020	(141 001)
Contribution to Revolving Fund	(141 282)	
Accumulated surplus (deficit) at the end of the year	<u>10 605 991</u>	<u>14 749 732</u>

Note: No contribution was made to the Revolving Fund due to the financial position

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

17 Overhead and administrative expenses

Basis of re-allocation of cost was based on the estimated time and cost spent by the department towards another department

18 Income recognition

Rates are raised based on three different valuation types accrual annually.

No rebates are granted to owners

The basis of billing is based on the tariffs as per the approved budget and is accrued monthly.

19 Capital/Contingent commitments

Claims have been submitted to Council for the cleaning and rehabilitation of the Stormsriver dumping site. The amount is in the region of R118200.

A claim for a telephone cable that was damaged by one of councils heavy duty equipment. The claims amounts to approximately R12000

A possible claim for the non awarding of tenders for the removal of refuse in Joubertina. The amount is not known.

Cost to defend the court case to review the rezoning of a golf estate

Cost to defend the court case with regard to the transfer of property in Coldstream

A section 21 Company, KEDC, needs to be deregistered and could cost in the region of R18000

Expenditure to the value of R1 207 731 has been incurred on capital projects.

	2007 R	2006 R
20 FINANCE TRANSACTIONS		
Total external interest - earned	73,994	123,298
Total external interest - paid	0	0
Capital charges - external	0	0
21 CASH GENERATED BY OPERATIONS		
(Deficit)/surplus for the year	-4,453,761	168,122
Adjustments in respect of:		
Previous years' operating transactions	310,020	1,292,311
Transfer to leave reserve	107,649	-230,860
Appropriations charged against income:		
- Capital Development Fund	141,282	
- Provisions and reserves		-1,921,248
- Fixed Assets		
Non operating expenditure	-2,769,506	-8,105,753
Non operating income	8,927,965	8,297,908
	<u>2,263,649</u>	<u>-499,520</u>
22 (INCREASE)/DECREASE IN WORKING CAPITAL		
(Increase)/Decrease in Stock	0	0
(Increase)/Decrease in Debtors	-4,774,398	-3,101,513
Increase/(Decrease) in Creditors	2,371,626	2,754,550
	<u>-2,402,771</u>	<u>-346,963</u>

KOUKAMMA MUNICIPALITY

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NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2007

	2007 R	2006 R
24 (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENT		
Net decrease in investments	-7,559	168,465
	<u>-7,559</u>	<u>168,465</u>
25 (INCREASE)/DECREASE IN CASH ON HAND		
Cash balance at the beginning of the year	118,236	1,118,906
Less: Cash balance at the end of the year	-102,440	118,236
	<u>220,677</u>	<u>1,000,670</u>
26 RETIREMENT		
The last actuarial valuations of the Cape Joint Pension and Retirement Funds and the SALA funds indicated the level of funding at 106% and 100% respectively.		

KOUKAMMA MUNICIPALITY

Koukamma Municipality
Annual Report 2006/2007

APPENDIX A

ACCUMULATED FUNDS, RESERVES AND PROVISIONS

	Balance at 01-Jul-06		Contributions during year		Interest on Investment		Other Income		Expen/Transfers during year		Balance at 30-Jun-07	
	R		R		R		R		R		R	
ACCUMULATED FUNDS												
Revolving Fund	1 969 988		141 283		5 608		56 763				2 173 642	
Dog Tax	55 203										55 203	
	2 025 191		141 283		5 608		56 763		0		2 228 845	
TRUST FUNDS												
Training	1 815										1 815	
Housing	(645 191)						1 165 156		2 260 235		(1 740 270)	
Library	24 310						86 219		33 980		76 549	
IDP	0						150 000				150 000	
MSP	358 000						150 000		382 263		125 737	
MIG							7 178 544				7 178 544	
	(261 066)		0		0		8 729 919		2 676 478		5 792 374	
RESERVES												
Renewals fund	82 102										82 102	
	82 102		0		0		0		0		82 102	
PROVISIONS												
Audit fees	150 000		150 000								300 000	
Leave reserve	1 067 278								107 650		959 628	
	1 217 278		150 000		0		0		107 650		1 259 628	



APPENDIX B

EXTERNAL LOANS

No External Loans

KOUKAMMA MUNICIPALITY

APPENDIX C

ANALYSIS OF FIXED ASSETS

Koukamma Municipality
Annual Report 2006/2007

Expenditure 2005/2006	Balance at 01/07/2006	Expenditure 2006/2007	W/Off, Trf, Redeemed or Sold 2006/2007	Balance at 30/06/2007
170 616	25 942 905	1 484 594	0	27 427 499
RATES AND GENERAL SERVICES				
COMMUNITY SERVICES	13 666 434	20 000	0	13 686 434
Properties and sundries	3 070 620	20 000		3 090 620
Public Works/Services	9 328 581			9 328 581
Health	92 900			92 900
Traffic	1 174 333			1 174 333
SUBSIDISED SERVICES	6 409 916	33 980	0	6 443 896
Buildings	3 022 950	33 980		3 022 950
Library	49 741			83 721
Fire Services	5 872			5 872
Cemetery	120 872			120 872
Parks, Halls and Recreation	3 210 481			3 210 481
ECONOMIC SERVICES	5 866 555	1 430 614	0	7 297 169
Refuse	21 298			21 298
Sewerage Services	5 845 257	1 430 614		7 275 871
HOUSING SERVICES	6 472 070	0	0	6 472 070
Sub Economic Housing	6 472 070			6 472 070
TRADING SERVICES	11 201 899	50 264	0	11 252 163
Electricity	3 769 707			3 769 707
Water	7 432 192	50 264		7 482 456
TOTAL FIXED ASSETS	43 616 874	1 534 858	0	45 151 732
LESS: LOANS REDEEMED AND OTHER CAPITAL RECEIPTS	39,923,157	1,534,858	0	41,458,015
Loans Redeemed and Advances Paid	6 347 172			6 347 172
Contributions ex Operating Income	4 228 528	20 000		4 248 528
Revolving fund	803 009			803 009
Grants and Subsidies	28 544 448	1 514 858		30 059 306
NET FIXED ASSETS	3,693,717	0	0	3,693,717



KOUKAMMA MUNICIPALITY

APPENDIX D

ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE PERIOD ENDED 30 JUNE 2007

Actual 2005/2006	Actual 2006/2007	Budget 2006/2007
R	R	R
INCOME		
Government and Provincial grants and subsidies	12 928 277	10 293 000
Rates	5 819 604	5 587 837
Electricity	2 837 533	1 712 400
Water	4 179 283	4 357 705
Other	8 146 543	16 411 171
	33 911 240	38 362 113
EXPENDITURE		
Salaries, wages and allowances	14 420 954	12 006 620
General expenses	16 051 856	14 660 548
Repairs and maintenance	5 555 949	5 559 750
Capital contributions	46 772	1 178 500
Contributions	2 289 470	3 508 050
Gross expenditure	38 365 001	36 913 468
Charge outs		
Net expenditure	38 365 001	36 913 468



KOUKAMMA MUNICIPALITY

APPENDIX

DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

Kou-Kamma Municipality
Annual Report 2006/2007

	2006/2007 Actual Income	2005/2006 Actual Expenditure	2005/2006 Surplus/ (Deficit)	2006/2007 Actual Income	2006/2007 Actual Expenditure	2006/2007 Surplus/ (Deficit)	2006/2007 Budget Surplus/ (Deficit)
	R	R	R	R	R	R	R
RATE AND GENERAL SERVICES							
Community Services	19 713 235	21 113 352	(1 400 116)	28 694 424	31 878 991	(4 984 567)	(723 493)
General Expenditure of the Council	13 597 588	16 350 484	(2 752 896)	13 346 355	24 579 378	(11 233 023)	(893 651)
Rates	20 000	1 056 727	(1 036 727)	1 256 350	2 247 660	(1 991 310)	(2 308 830)
Technical Services	4 444 903	664 082	3 780 822	5 819 604	1 543 845	4 275 759	3 768 828
Managerial Services	814 345	1 875 567	(1 061 222)	1 927 834	2 014 315	(86 481)	(1 075 200)
Financial Services	368	3 558 639	(3 558 181)	230 909	7 819 207	(7 588 298)	(3 134 799)
Protection & Traffic Services	4 114 100	4 580 051	(465 950)	4 130 358	4 414 787	(284 429)	2 369 196
	4 203 882	4 615 520	(411 638)	5 981 300	6 539 561	(558 261)	(512 839)
Subsidised Services	50 229	288 472	(198 242)	184 344	465 989	(281 645)	(574 130)
Cemeteries	19 384	3 239	16 155	18 847	9 916	8 931	177 563
Libraries	427	227 586	(227 160)	31 474	293 896	(262 552)	(347 338)
Fire & Health Services			0	99 070	6 132	92 888	0
Hall & Recreation	70 409	57 647	12 762	35 633	155 945	(120 312)	(344 375)
Economic Services	6 025 418	4 474 386	1 551 022	7 363 125	6 833 824	529 501	744 288
Refuse Removal Services	1 921 776	2 211 005	(289 229)	1 998 003	2 886 732	(928 729)	(275 103)
Sewerage Services	4 103 642	2 263 391	1 840 251	5 405 122	3 946 892	1 458 230	1 019 391
HOUSING SERVICES	0	233 309	(233 309)	0	424 785	(424 785)	(399 764)
Housing Administration	0	233 309	(233 309)	0	424 785	(424 785)	(399 764)
TRADING SERVICES	5 957 662	4 156 115	1 801 547	7 016 810	6 061 225	955 591	1 123 257
Electricity	1 259 146	1 500 276	(241 129)	2 837 533	2 872 168	(34 636)	556 956
Water	4 698 516	2 655 839	2 042 677	4 179 283	3 189 056	990 227	568 301
TOTAL	25 670 897	25 502 775	168 122	33 911 240	38 365 001	(4 453 761)	0
Appropriations for the year (Note 16)			(141 002)			310 020	
Net Surplus/(Deficit) for the year			27 120			(4 143 741)	
Accumulated Surplus/(Deficit) at the Beginning of the Year			14 722 611			14 749 732	
ACCUMULATED SURPLUS/(DEFICIT) AT THE END OF THE YEAR			14 749 732			10 605 991	

Notes:
Fire Services included under Protection Services
Equitable share has been allocated to free basic services



APPENDIX F

STATISTICAL INFORMATION

GENERAL STATISTICS

1 Population 28,214

2 Property valuations

Total number of properties 16,029

Total Value used for rating 2007/08 (Rand) 108,515,747

Total Land Value 2007/08 (Rand) 15,842,605

Total Value of Improvements 2007/08 (Rand) 92,673,142

3 Number of properties

Residential 6,582

Vacant land (urban) 437

Bussiness 709

Industrial 14

Schools and churches 47

State owned 95

Communal 159

Agriculture 7,986

4 Number of employees 175

5 Electricity Statistics

Electricity is supplied partly by council
and partly direct by Eskom

sold by council (metered) 1,033,994 kwh
144 meters

6 Water statistics

3,389 meters
5,500,646 kl as per meters read

4.1 Report of The Auditor-General to The Council of Koukamma Municipality (and The Eastern Cape Legislature) on The Financial Statements and Performance Information of Koukamma Municipality for The Year Ended 30 June 2007

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF KOUKAMMA
MUNICIPALITY (AND THE EASTERN CAPE PROVINCIAL LEGISLATURE) ON
THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF
KOUKAMMA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Koukamma Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 13.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity specific basis of accounting as determined by the National Treasury as set out in accounting policy note 1, to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 (3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The Municipality's policy is to prepare financial statements on the entity specific basis of accounting determined by the National Treasury as set out in accounting policy note 1 to the annual financial statements.

Basis for disclaimer of opinion

5. As a result of insufficient recordkeeping of financial records and documentation as well as inadequate reconciliation processes performed as described in my basis for disclaimer of opinion paragraphs underneath, I was unable to verify the completeness, accuracy, valuation and validity of balances and transactions audited. As a result of the circumstances, I was unable to carry out all auditing procedures I considered necessary for my audit. This is a clear indication of inadequate control activities, monitoring of controls and a poor control environment that exists at the municipality.

Accumulated surplus

6. The 2006 balance of the accumulated surplus of R14,7 million in the balance sheet (see also note 16 to the financial statements) included journal entries processed in the prior financial years to the amount of R2,2 million that could not be substantiated nor verified to supporting documentation. This was reported to council in the prior year audit report. The supporting documentation was not provided during the current year audit and as a result, the correctness of the opening balances remained uncertain.

Trust funds

7. The 2006 balance of Trust funds amounted to (R261 067) in the balance sheet. During the prior year audit, transactions to the value of R12,2 million could not be verified and entries totaling R4,3 million was found not to be recorded. The prior year uncertainty and incompleteness remained uncorrected during 2006/7 with the result that the correctness of the year end balance for Trust funds (R5.7 million) and the Accumulated surplus (R10.6 million) remain uncertain.

Fixed assets

8. Fixed assets as disclosed in note 4 to the annual financial statements reflects total fixed assets as at 30 June 2007 amounting to R45,1 million; while the fixed asset register reflects a balance of R40,6 million, resulting in a R4,5 million unexplained difference and possible misstatement. Management was unable to explain the difference due to the fixed asset register not being properly maintained.
9. I was unable to satisfy myself as to the existence, valuation and completeness of fixed assets at year – end due to a lack of supporting documentation.

Debtors

10. Debtors to the value of R 24 million as reflected in note 8 to the annual financial statements could not be verified due to a lack of supporting documentation. In addition, journal entries with a net effect of R3,4 million were processed against debtors, but due to a lack of supporting documentation the journal entries could not be verified.
11. Included in note 8 to the annual financial statements is a Provision for bad debts amounting to R9,3 million (2006: R9,3 million). Due to a lack of supporting documentation and lack of information as to how the provision was

arrived at, I was unable to satisfy myself as to the reasonability for the provision for bad debts.

12. Debt repayment in the amount of R370 678 was incorrectly allocated to Rental income instead of being allocated to the KEDC Debtor. This has the effect that revenue, accumulated surplus and debtors are overstated by R370 678.

Creditors

13. Creditors to the value of R7,7 million as reflected in note 11 to the annual financial statements could not be verified due to a lack of supporting documentation. In addition, journal entries with a net effect of R933 510 were processed against creditors. However, due to a lack of supporting documentation, the journal entries could not be verified.
14. Included in note 11 to the annual financial statements is a Value Added Taxation (VAT) liability in the amount of R2,5 million (2006: R1,9 million). However upon inspection of the VAT 201's for the period under review it was noted that the Municipality had refunds due to them for each applicable period, which had been subsequently remitted to the Municipality. I was unable to verify the VAT liability at year-end.
15. Journal entries with a net effect of R 719 292 were processed to the VAT account. Due to a lack of supporting documentation I was unable to verify these transactions.

Cash and Bank

16. Due to a lack of supporting documentation Cash and bank balance amounting to R661 087 as well as the Bank overdraft amounting to R763 527 as disclosed in the balance sheet and journals relating to cash and bank, with a net effect of R353 564 could not be verified.

Income

17. Included in the Total for Rate and General Services of R26,8 million in the Income statement is an amount of R17,5 million relating to service income. Due to a lack of supporting documentation I was unable to verify service income. In addition journal entries with a net effect of R4,5 million processed against income could not be verified due to a lack of supporting documentation.

Expenditure

18. Journals with a net effect of R933 510 were processed against expenditure, amounting to R38,4 million in the Income statement for the year ended 30 June 2007. Due to a lack of supporting documentation I was unable to verify these journal entries.
19. General Expenditure in the amount of R 198 674 does not agree to supporting documentation.
20. Motor vehicle registration payments in the amount of R2,96 million was incorrectly allocated to repairs and maintenance expenditure. This was not adjusted with the result that maintenance expenditure was overstated and payments for motor vehicle registration fees are understated for the period under review.

Employee cost

21. Salaries, wages and allowances amounts to R14,4 million for the 2006-07 financial year as disclosed in Appendix D to the annual financial statements. In terms of section 7(5) of the South African Local Government Bargaining Council agreement, leave pay should not be paid in excess of 48 days. It was noted that leave pay was paid to employees for leave accumulated in excess of 48 days, resulting in an overpayment of leave in the amount of R104 542. This overpayment is regarded as irregular expenditure in terms of section 1 of the MFMA.

Unauthorised expenditure

22. The total operating expenditure for the year amounts to R38,4 million according to the Income statement for the year ended 30 June 2007. This is R1,5 million more than the operating expenditure budget of R36,9 million for the 2006-07 financial year. The over expenditure is regarded as unauthorised expenditure in terms of section 1, read with section 15, of the MFMA and should have been disclosed as required by section 125(2)(d)(i) of the MFMA.

Going concern

23. The Municipality has serious cash flow problems and Creditors are not paid within 30 days. Payroll creditors and other payroll deductions as well as the audit fees are not paid timeously. Certain suppliers have placed the municipality on terms and only cash purchases are allowed. The average debtor's days outstanding rate also increased substantially since the prior year.

Based on the balance sheet amounts and the previous year audit results, there appears to be an immediate financial and serious cash flow problem. Factors supporting this includes:

- (a) The average collection period of debtors days has increased from 388 days in 2005/2006 financial year to 412 days in 2006/2007;
- (b) A number of the municipality's assets are at the end of their useful lives;
- (c) The Municipality is largely dependant on Government grants to fund their operational activities especially with regards to any replacement of infrastructure (capital items) or improvement of service capacity;
- (d) The municipality's average rate of payment of creditors was 125 days in 2006/2007 which is above the norm of 30 days; and
- (e) Section 75(1) of Ordinance 20 of 1974 prescribes that 7,5% of the prior year's rates must be contributed to the revolving fund. These contributions were made but were not supported by concomitant funds.

The above circumstances actually meets some of the criteria set for determining serious financial problems at municipalities in terms of section 138 of the MFMA.

Contingent liabilities

24. I did not obtain written confirmation from the Municipality's legal representatives at date of this report regarding any possible legal disputes,

outstanding contracts and the existence and the value of any possible contingent liabilities that might have existed at year end. Therefore the completeness of the disclosure in note 19 to the financial statements could not be verified.

Disclaimer of opinion

25. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Koukamma Municipality. Accordingly, I do not express an opinion on the financial statements.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non compliance with applicable legislation

26. The following non compliance with legislation was evidence during the audit:
- 26.1 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and relevant regulations and notices
- (a) Section 125(2)(a): Non- disclosure in respect of each bank account held.
 - (b) Section 125(2)(b): Non- disclosure of summary of all investments.
 - (c) Section 125(1)(c): Non-disclosure of statutory contributions.
 - (d) Section 125(1)(a): Non- disclosure of KEDC- Qhubekeka Charcoal as a related party (municipal entity).
 - (e) MFMA exemption in terms of Government Notice No. 522 dd. 29 June 2007 refers. The Kareedouw Economic Development Company (KEDC) is a municipal entity registered as a section 21 company of which Koukamma is the parent municipality. No financial statements have been prepared for the entity and could thus not be attached as an annexure as required in paragraph 3(2)(d) of the notice.
- 26.2 Division of Revenue Act, 2007 (Act No. 1 of 2007)
- Section 25: Non-submission of reports to National treasury.
- 26.3 Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998)
- Gazette No. 29447 dated 1 December 2006: Councillors salaries and allowances was paid above the upper limits determined by Government Gazette. The excess expenditure constitutes irregular expenditure and should be disclosed and dealt with in terms of section 125(2)(d)(i) of the MFMA.
- 26.4 Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)

- (a) As per section 34(1)(a): Deductions from payroll are made in terms of repayments of loans and other accounts without proper authorisation letters signed by the staff.
- (b) As per section 34(1)(a) of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) an employer may not make any deduction from an employee's remuneration unless the employee in writing agrees to the deduction in respect of a debt specified in the agreement, or the deduction is required by law. Deductions from payroll are made in terms of this and other accounts without proper authorisation letters signed by the staff.

26.5 Municipal Property Rates Act, 2004 (Act No. 6 of 2004)

The valuation role is older than 4 years contrary to section 32(1)(b).

26.6 Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)

Section 2(1): In the absence of tender documentation I was unable to confirm the implementation of policy.

Internal control

27. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for disclaimer of opinion					
Accumulated surplus	X			X	
Trust funds	X			X	
Fixed assets	X	X	X	X	X
Debtors	X	X	X	X	X
Creditors	X	X	X	X	X
Cash and Bank	X		X		X
Income	X		X	X	X
Expenditure	X		X	X	X
Employee cost	X	X	X	X	X
Unauthorised expenditure	X		X		X
Going concern	X	X	X		X
Contingent liabilities		X	X	X	X
Other matters					
Non-compliance with applicable laws and regulations	X	X	X	X	X

Control environment

- 27.1 The municipality did not establish the key elements of a control environment to achieve sound financial management. This resulted in an inadequate level of skills and knowledge to enable the financial processes to be accurately performed.

Assessment of risk

- 27.2 The municipality does not have sufficient mechanisms in place to assess business and related risks, as evident in the matters reported and especially relating to going concern issues.

Control activities

- 27.3 The effectiveness of control activities over business and accountancy processes was not adequate. This is evident from the matters reported relating to debt recovery, bank reconciliations and the asset register.

Information and communication

- 27.4 The municipality does not have adequate systems for the accounting and processing of transactions. As a consequence various records are maintained on Excel spreadsheets or manually, which resulted in the relating matters reported above.

Monitoring controls

- 27.5 The monitoring of controls, such as the review of reconciliations, confirmations from external parties and the internal audit process, was not effective. This contributed to the matters reported relating to the recoverability of debtors.

Fraud investigation

28. A fraud investigation proceeded in terms of payroll manipulation during the financial year. The investigation is still in process and no more detail was made available by the municipality.

Unaudited supplementary schedules

29. The supplementary information set out on pages 14 to 19 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

30. I was engaged to audit the performance information.

Responsibility of the accounting officer

31. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

32. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and section 45 of the MSA.
33. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
34. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (Performance information)

Non compliance with regulatory requirements.

35. The annual report of the Koukamma municipality did not include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality, as required by section 121(4)(d) of the MFMA.
36. The annual performance report of the municipality is not prepared as required in terms of section 46 of the MSA.
37. Existence and functioning of a performance audit committee.
The Koukamma Municipality did not appoint and budget for a performance audit committee as required in terms of regulation 14(2)(a) of the Municipal Planning and Management Regulations, 2001.
38. Internal auditing of performance measurements.

The Koukamma Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as

part of its internal auditing processes as required in terms of section 45 of the MSA.

Lack of sufficient appropriate audit evidence

39. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Koukamma Municipality, as I was unable to obtain access to the records pertaining to the programmes, objectives and key performance indicators that relates to the same period and records pertaining to performance measurement.

APPRECIATION

40. The assistance rendered by the staff of the Koukamma Municipality during the audit is sincerely appreciated.

Auditor-General.

Port Elizabeth

21 December 2007



A U D I T O R - G E N E R A L

4.2 Response to Report of The Auditor-General To The Eastern Cape Provincial Legislature On The Koukamma Municipal Financial Statements And Performance Information For The Year Ended 30 June 2007

In Response To The Auditor-General Report The Following Comments Are Made:

1. Accumulated Surplus

Journal entries totaling to R2,2 million will be investigated and necessity will be verified and documents will be made available in the 2007/2008 financial year.

2. Trust Funds

All trust funds will be looked at and be correctly adjusted to their true balances starting from previous years.

3. Fixed Assets

The municipality has started verifying all assets and their values to the asset register and financial statements. This will be finalised in the 2007/2008 financial year.

4. Debtors

Balancing of debtors control account has started and all journal entries will be investigated and be supported with source documents and included for audit for 2007/2008.

Guidelines on the calculation of provision for bad debts will be included in the received

Verification of mis-allocation of R370 678 to rental income and necessary correction will be done against surplus and credited to KEDC debtor.

5. Creditors

The correctness of commitments in a form of invoices will be verified and necessary corrections will be affected

6. Cash and Bank

VAT control accounts are to be analysed and balanced to VAT returns in order to come up with amount due to the municipalities owned. Journal entries to the amount of R719 262 will also be verified.

7. Income

Journals to the amount of R353 564 will be verified and necessary supporting

documents will be provided in the 2007/2008 audit.

A breakdown of Rates and General Services income will be provided for audit of 2007/2008 and all other income penetrated/reflected in the income statement.

8. Expenditure

Journals to the amount of R933 510 will be investigated and supporting documents be provided and corrections necessary will be effected to the accumulated surplus.

All expenditure reflected in the income statement will be supported by payment vouchers and invoices in the 2007/2008 audit.

Misallocation of expenditure will be carefully monitored and responsible official will be cautioned about such errors and negative effects.

9. Employee Cost

This matter will be further investigated and after it is proved correct will be reported to Council and necessary corrective measures in terms of MFMA will be effected.

10 Unauthorised Expenditure

Unauthorised expenditure in 2006/2007 has been noted and expenditure controls have been put in place to guard against over-expenditure.

11. Going Concern

- (a) Lack of good governance and no sufficient personnel to implement credit control and debt collection policy has deteriorated the situation of non-payment and debt by consumers. This matter is receiving serious attention and as such more personnel will be employed to improve performance in this important function.
- (b) The municipality will approve asset disposal policy and all vehicles which are not longer economically viable will be disposed of in 2007/2008.
- (c) A financial turn-around strategy has been drafted by the municipality to try and boost the financial viability and increase the turnover rate of debt collection and improve budgeting.
- (d) An amount of R8,1 million has been approved by the Department of Local Government Housing and Traditional affairs to assist the municipality to settle its long outstanding creditors.

12 Contingent Liabilities

Contingent liabilities in note 19 will be totally disclosed and supported with necessary documents for year 2007/2008 financial year.

All matters for emphasis are acknowledged by council and will try to address all of them in the 2007/2008 financial year.

13 Employee cost, item 21:

A request was forwarded to the SALGBC to obtain an extension in time to address encashment of accrued leave in terms of the Agreement due to financial constraints. This request was granted by the SALGBC. The payment of leave referred to here is in line with this agreement.

14. Existence and functioning of a performance audit committee, item 37

Remuneration Committee performs the function of Performance Audit Committee together with the Audit Committee.

15. Internal auditing of performance measurements, item 38:

The statement cannot be agreed to. Performance Contracts for each Section 57 Manager was developed and provided. Monitoring, Calculation and determination of performance is stipulated in these documents.

4.3 **AUDIT COMMITTEE ANNUAL REPORT FOR THE 2006/2007 FINANCIAL YEAR**

Koukamma Municipality (Part of the Western Cluster of the Cacadu District Municipality)

The following report deals with the activities of the Audit Committee for the period 1 July 2006 to 30 June 2007.

The report is presented to the Council of Koukamma Municipality for its consideration.

The Audit Committee was appointed during July 2006 in terms of the MFMA no 56 of 2003 and the Shared Audit Committee Terms of Reference were approved on 6 July 2006.

The Audit committee consisted of the following independent external members;

Ronel Shaw (Chairperson)	Appointed for a three year term
Bongeka Jojo	Appointed for a three year term
Andre Saayman	Appointed for a one year term.

Mr Saayman is the only member residing within the demarcated area of the Kouga Municipality. I would like to recommend to council that Mr Saayman be appointed for another term should he make himself available.

Meeting Dates:

The Audit Committee met on a quarterly basis, on the following dates:

3 October 2006
5 December 2006
15 March 2007
14 June 2007

Attendees

Besides the audit committee members, the meetings were also attended at various times by:

The -
Mayor
Municipal Manager
Chief Finance Officer
Principle Finance Officer
Information Technology Manager
Corporate Support Services Manager
Representatives from the internal audit – PriceWaterhouseCoopers
Representatives from the Auditor General's Office.

Special issues addressed

- The approval of the Internal Audit Charter
- The review and approval of the proposed internal audit plan for 2007/2008.

Recurring Issues Addressed

To ensure the effective and efficient execution of the Audit Committee's responsibilities, a number of recurring issues were evaluated, monitored and recommendations were made by the committee including:

- The review of risk areas and monitoring the management of these risks
- Evaluating the internal audit reports and making recommendations where appropriate as well as reviewing actions taken by management.
- Considering reports of the Auditor General and resultant actions taken by management.
- Monitoring disagreements and unresolved accounting and auditing issues between the external auditors and management
- Encouraging efforts towards full compliance with GRAP and GAMAP.
- Reviewing audited annual financial statements albeit for periods prior to the appointment of the audit committee.
- Cautioning against fruitless expenditure
- Encouraging the implementation of an effective performance management system at all levels to promote accountability.

Annual Financial Statements

The audit committee would like to express its concern about:

- the unacceptable delays in finalising annual financial statements. The finance department seems to operate under capacity constraints resulting in slow/unsatisfactory responses to external audit requests and queries. Furthermore, the high staff turnover impacts negatively on internal controls as well as the ability of members of staff to become proficient with the new financial system.
- the fact that the audit of the annual financial statements for the year ended 30 June 2006 has not yet been finalised. The audit committee can therefore not make any recommendations to council as required per our terms of reference, paragraph 8.19.

Other areas of concern

- No monthly management accounts were prepared during the period under review which makes it impossible for the municipality to manage and monitor its financial

affairs, especially its cash flow, effectively. It furthermore means that the preparation budgets could be seen as fruitless expenditure as it is not used as a tool to continuously measure performance of the various departments as intended. Significant variances would only become evident at year end when it would be too late to address and/or rectify any significant over expenditure.

- Poor revenue control and the inability to improve collections is a huge concern. A workshop to improve debt collection was held with all stakeholders and the audit committee is optimistically awaiting the results of this initiative.
- Poor management of bad debts.
- Arrear councillors; service accounts. Council should lead by example and at all times comply with relevant legislation and aspire to maintain high ethical standards.
- Slow service delivery, to a large extent the result of poor collection of revenue and thus lack of resources.
- Lack of project management capacity and the resultant mal-administration of housing projects, translating into significant financial loss to the municipality that can ill afford it.
- The slow progress in the implementation of an effective Performance Management System.
- The audit committee is aware of investigations currently underway into probable fraud in relation to unauthorised inflated salaries during the month of December 2006 as well as corruption claims in relation to certain housing projects. We are concerned that the current internal control environment would not effectively curb further fraud. All staff needs to buy into a zero tolerance approach against fraud and corruption. Towards this end, we urge Council to adopt an official fraud prevention policy.

Full details of our activities are set out in the minutes of our quarterly audit committee meetings.

Frustrations experienced in executing the committee's duties and responsibilities

The audit committee is hampered in effectively discharging its duties due to the fact that:

- Agendas and meeting 'packs' for audit committee meetings are either not received at all or issued at the last minute, which is completely counter productive.
- It appears as if audit committee meetings are reviewed as a quarterly formality and recommendations do not receive the necessary timely attention.
- Agendas and minutes of council meetings are not being made available to the audit committee members thus making it impossible for the audit committee to advise and guide council on a range of issues as stipulated in section 166(2)(a) of the MFMA.

For audit committee meetings not to become fruitless expenditure, the members are adamant that its recommendations be implemented as far as possible for meaningful improvement to be attained.

Conclusion

In conclusion, the audit committee would like to acknowledge the co-operation and support it received from the internal auditors as well as the management of Koukamma Municipality.

R. Shaw (CA(SA))
Chairperson Audit Committee

4.4 OVERSIGHT REPORT

The Annual Report was tabled at the Kou-Kamma Municipality Special Council Meeting held on
8 April 2008.

The Council unanimously approved the Annual Report for 2006/2007.